VIDEO LINK

Commentary: NCM Core Canadian

On February 5, 2024, Portfolio Manager Keith Leslie, CFA provided an update on the "catch-up trade" in low volatility stocks that has been carrying the fund to strong performance as of late.

TRANSCRIPT:

Hi there. It's February 5th, 2024. And I'm Keith Leslie of NCM Investments. Today I thought I'd briefly discuss the shift that we've seen in the Canadian market and update you on the performance and the sector exposures of NCM Core Canadian.

In the 20-month period from the beginning of 2022 to the end of August '23, we saw the TSX outperform the TSX Low Volatility Index in 15 of those 20 months. And in fact we actually go back even further to when this anomaly actually started in April of 2020, the TSX had outperformed the TSX Low Vol in 30 of the 41 months or approximately 75% of the time.

For the last little while, we've been talking about a mean reversion trade for, hoping that the TSX Low Vol would catch up and make up this underperformance both in terms of timeframe and magnitude. And we're finally starting to see that happen.

In fact, since the end of August, we've seen the low volatility index turn around and actually become a tailwind as it outperformed the TSX in 4 of the 5 months and outperformed by about 2.1%. The good news, in my opinion, is that the TSX outperformed the low vol index by about 50% in the previous period.

So this is just the beginning of a catch-up trade. Given NCM Core Canadian's low volatility mandate, we believe we're well positioned for this current market environment. As a result, it's actually been an excellent start for the year as we've now had a very strong January and had a very strong last five months as would be expected.

And we have that tailwind both absolute and relative to our higher volatility peer group. The fund, as I mentioned, is well positioned to take advantage of this shift. It currently trades at 10.6 times earnings versus 14 for the TSX. In other words, it's trading at a 25% discount in P/E multiple. Despite that, the portfolio has 33% higher expected growth rate in '24 and 27% higher expected growth rate in '25. All while having a lower beta, meaning the stocks held in the NCM Core Canadian have historically been less volatile.

Finally, I'd just touch on one more thing. Since the last update, the fund has been adding to its financial services, industrials and consumer staples exposures at the expense of energy and basic materials where we've reduced some of our exposure there.

In conclusion, the fund continues to significantly outperform the low volatility index, and we're expecting that the current tailwind being experienced by the low volatility index will help us close the performance gap with the broader market and our higher volatility peer group. Thanks, and we'll talk to you soon.

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